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21 KING STREET EAST



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Civic Financial Control

STORY No. 3

The City's public service enterprises not administered by appointive Boards or Commissions.

For the period from 1917-1926, after which the City took over the radials and provided for radial and harbour deficits in the annual civic estimates. The facts for years following the change in policy will be presented later.

THESE UTILITIES ARE

1. The civic transportation system administered for the city by the Toronto Transportation Commission through a General Manager.
2. The Local Hydro administered for the City by the Hydro Commission through a General Manager.
3. The Harbour administered for the City by the Board of Harbour Commissioners through a General Manager.
4. The City owned radials operated in the past for the City by the Ontario Hydro-Electric Power Commission but now turned over for operation to the Toronto Transportation Commission. The table below shows the results of operation for a decade.

NET SURPLUSES AND DEFICITS OF MUNICIPAL UTILITIES ADMINISTERED BY APPOINTIVE COMMISSIONS (1917-1926)****

Year	Toronto Transportation Commission	Toronto Hydro-Electric Commission	Board of Harbour Commissioners (not including sinking fund payments, but including interest on money borrowed to defray deficits.)†	Radials	Total net deficit or surplus
1917		S. \$ 34,467	D.\$ 223,199		D.\$ 188,732
1918		S. 21,667	D. 169,089		D. 147,422
1919		S. 4,151	D. 378,745		D. 374,594
1920		S. 122,728	D. 496,295		D. 373,567
1921		S. 214,353	D. 691,342		D. 476,989
1922	S. \$109,469	S. 232,041	D. 806,558		D. 465,048
1923	S. 124,839	S. 132,057	D. 1,013,924	D.\$ 195,252*	D. 952,280
1924	S. 89,187	S. 51,923	D. 1,047,157	D. 248,541**	D. 1,154,588
1925	S. 58,064	S. 81,383	D. 997,674	D. 247,122**	D. 1,105,349
1926	S. 76,951	S. 11,408	D. 981,928	D. 314,271***	D. 1,207,840
	S. \$458,510	S. \$906,178	D. \$6,805,911	D. \$1,005,186	D. \$6,446,409

*Period ending October 31st, 1923.

**Year ending October 31st.

***Period of 14 months ending December 31st, 1926. Taken over by City on Jan. 11th, 1927.

†These figures for Harbour deficits do not agree with the totals of the auditor's report. They are smaller by the amount of the total sinking fund charges. Inasmuch as the greater part of the assets of the Board is land not subject to physical depreciation, and in the absence of figures for depreciation on buildings and structures it was thought wise for the purposes of this study to exclude all sinking fund charges. The occurrence of yearly deficits in operation does not mean necessarily that there is a balance sheet deficit, as the total assets owing to appreciation of land values may exceed the accumulated deficits, so that the total assets may be greater than the total liabilities. The deficits given herein are all based on the City Auditor's Report, but agree with other figures except for an apparent difference of about \$95,000 in 1926.

****The comparable figures for 1927 are: T.T.C., \$116,655.75(S); Hydro, \$39,273(S); Harbour, \$720,000(D), (Deficit to be borne by the taxpayers directly. From the 1928 Est.); Radials, \$502,042(D), (from the 1928 Est.). These are not included above in order to conform to Stories 1 and 2, issued in 1927. The Ferry deficits have not been included, but the deficits given in the civic estimates were: 1926, \$20,393; 1927, \$86,408.

IT WILL BE NOTED

1. That the Toronto Transportation Commission has had a surplus each year since its operation, the surpluses totalling over \$450,000 in five years.
2. That the Hydro has shown a surplus each year for ten years, the surpluses totalling over \$900,000.
3. That the Harbour has had a deficit (i.e. an excess of interest over operating surpluses) each year for ten years, not including sinking fund charges or depreciation, the deficits totalling \$6,805,911. (Since 1912, the deficits on this basis total \$6,880,179.) For 1923 and 1924 it showed operating deficits in addition to the interest charges. The book deficits are really much larger, but for the purposes of this study, and in order not to appear to overstate the case, sinking fund payments have been omitted in arriving at the deficits. Inasmuch as a great part of the assets of the Board is land on which there can be no physical depreciation, the partial omission of sinking funds in calculating deficits is entirely defensible. There are possibly some other minor omissions which might be made but these are more than covered by the total omission of the sinking funds. (The accumulated deficit, according to the Toronto Harbour Commissioners' balance sheet, is \$8,909,923.27 at the end of 1926.) The interest charges are, of course, not only the interest on the actual investment in harbour work, but the interest on money borrowed to defray deficiencies. No doubt some of these deficiencies were due to improper provisions as to some sinking fund requirements. Another large portion was due to the war and the delay in completion of the Welland Canal. Still another factor was the pyramiding of debt charges by the unsound method of financing deficits. For these factors the Board of Harbour Commissioners cannot be held accountable. But to the taxpayer the deficiencies are now facts which must be faced.
4. That the radials have had a deficit each year for four years totalling about \$1,000,000, but that these have now been turned over to the T.T.C. in the hope of eliminating or cutting down the deficits. Two of the units have been incorporated with the City Lines.
5. That the net deficits on all these utilities for the ten years have totalled \$6,446,409, exceeding the total net surplus for the ten-year period on utilities figuring in the Civic Estimates by \$2,327,866.
6. These deficits would be considerably increased if taxes in full on the same basis as if privately owned and operated had been included in the cost of operation, as they undoubtedly should.

NOTE.

It may be urged that the annual deficiencies on Harbour account are not deficits; but inasmuch as they represent the excess of current expenditures over current revenues, and inasmuch as the money was borrowed by debentures to cover deficits, thus reducing the net assets, they have, at least, the same effect, so far as the taxpayers are concerned, as net deficits. As given herein they are inescapable debt charges other than sinking funds, less operating surpluses, or plus operating deficits, as the case may be.

It may be that the potential value of the assets held may still exceed the liabilities and that, therefore, there may not be a true net balance sheet deficit, but this does not affect the nature of the current deficiencies as current deficits.

The report of the City Auditor to the City Council on the Harbour for the year ended December 31st, 1925, contained the following passage:

"As in my reports for 1923 and 1924, I should like to point out to you again the necessity for finding a less wasteful method of providing for the interest on the Debenture Debt than by the further issue of debentures. There would seem to be only one other rational way of financing the deficits, i.e., by providing for them out of taxation. This is the method followed in the abattoir financing. Difference in size does not affect the proper method of financing. Later on, and when the Harbour pays a surplus, the money advanced by the City to meet deficits can be replaced from the annual surpluses. In the meantime the eating up of the City assets by pyramiding debt charges would be obviated."

It is extremely encouraging to know that the City in 1927 included in its estimates to be raised by taxation the large sum of \$1,193,125, in 1928 \$1,161,667, and in 1929 \$1,036,405, to meet the deficits on the Radials and the Harbour. As will be seen in Story No. 4, this will probably be sufficient to enable the City to meet all operating deficits in all its services and thus establish a balanced budget for the City's business as a whole. This action should have been taken years ago, but the pyramiding of interest charges has at last been stopped and the payment of interest on deficits is at last a thing of the past for the City as a whole, as it was for the City business proper years ago.